



September 1, 2006

Ms. Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

**Subject: Docket No. R-1262**

Dear Ms. Johnson:

The Board of Governors of the Federal Reserve System ("Board") has proposed revisions to Regulation D that would authorize the Board to determine on a case-by-case basis whether certain entities may become customers of "bankers' banks" and continue to qualify for the bankers' bank exemption from Regulation D's reserve requirements. EasCorp is pleased to provide its comments on the proposed rule.

Regulation D implements Section 19(b) of the Federal Reserve Act ("Act"), which imposes reserve requirements on certain deposits and other liabilities of depository institutions. Section 19(b)(9) of the Act, commonly referred to as the "bankers' bank exemption," exempts from reserve requirements certain depository institutions that would otherwise be subject to them. This section provides that reserve requirements shall not apply to a financial institution that is organized solely to do business with other financial institutions; is owned primarily by the financial institutions with which it does business; and does not do business with the general public.

In November 1980, the Board issued an interpretation of Regulation D ("Interpretation") specifying standards to determine whether institutions qualify for the bankers' bank exemption. 12 C.F.R. 204.121. The Interpretation states that a depository institution will be regarded as not doing business with the general public if the depository institution satisfies two requirements:

- the depository institution must limit the range of customers with which it does business to: depository institutions, including subsidiaries or organizations owned by depository institutions; directors, officers or employees of the same or other depository institutions; individuals whose accounts are acquired at the request of the institution's supervisory authority due to the actual or impending failure of another depository institution; share insurance funds; and depository institution trade associations; and
- the depository institution's loans to or investment in that range of customers (other than depository institutions) cannot exceed 10 percent of total assets, and the extent to which it receives shares or deposits from or issues other liabilities to those same entities (other than depository institutions) cannot exceed 10 percent of total liabilities or net worth.

The Board proposes to add the following language to allow it to determine on a case-by-case basis other entities with which a bankers' bank can do business without being treated as doing business with the general public for purposes of the exemption: "and such others as the Board may determine on a case by case basis consistent with the purposes of the Act and the bankers' bank exemption."

EasCorp supports the proposed revision to the Interpretation. However, in making the revision, the Board appears to have inadvertently removed language from this provision, which would have the effect of limiting the range of customers with which a bankers' bank may do business.

The language as contained in the proposed revision to 12 C.F.R. 204.121(a)(2)(iii) is as follows:

...First, the range of customers with which the institution does business must be limited to depository institutions; directors, officers or employees of the same or other depository institutions; individuals whose accounts are acquired at the request of the institution's supervisory authority due to the actual or impending failure of another depository institution; share insurance funds; depository institution trade associations; and such others as the Board may determine on a case by case basis consistent with the purposes of the Act and the bankers' bank exemption. \* \* \*

The language in the Interpretation currently states:

...First, the range of customers with which the institution does business must be limited to depository institutions, **including subsidiaries or organizations owned by depository institutions**; directors, officers or employees...

We assume the Board did not intend to remove the language "including subsidiaries or organizations owned by depository institutions" as the intent of the proposed rule is to expand the range of customers rather than restrict them. We point this out to ensure that the Board is aware of this omission and includes the language in this provision when the final rule is issued.

Thank you for the opportunity to provide our comments on the Board's proposed rule on Regulation D. Please contact me at (800) 428-1144 if you have any questions.

Sincerely,

  
Jane C. Melchionda  
President/CEO

JCM/js